FitchRatings

Sovereigns
Finland

Finland

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency	
Long-Term IDR	AA+
Short-Term IDR	F1+
Local Currency	
Long-Term IDR	AA+
Short-Term IDR	F1+
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Rating Derivation

Component	
Sovereign Rating Model (SRM)	AA+
Qualitative Overlay (QO)	0
Structural features	0
Macroeconomic	0
Public finances	0
External finances	0
Long-Term Foreign-Currency IDR	AA+

Source: Fitch Ratings

Data

	2021
GDP (USDbn)	299
Population (m)	5.5

Source: Fitch Ratings

Applicable Criteria

Sovereign Rating Criteria (April 2022)
Country Ceilings Criteria (July 2020)

Related Research

Fitch Affirms Finland at 'AA+'; Outlook Stable (April 2022)
Global Economic Outlook (March 2022)
Interactive Sovereign Rating Model (April 2022)
Fitch Fiscal Index - Analytical Tool (April 2022)
Click here for more Fitch Ratings content on Finland

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Key Rating Drivers

High Governance, Debt, Demographics: Finland's 'AA+' Long-Term Issuer Default Ratings are supported by very high governance indicators, high GDP per capita, and eurozone membership. Public debt is likely to remain above both 'AA' and 'AAA' medians, and demographic pressures translate to a low potential growth rate for the Finnish economy.

Ukraine War Worsens Outlook: The Finnish economy expanded by 3.5% in 2021, with real GDP already surpassing its pre-Covid-19 pandemic level in 2Q21. However, the Russian invasion of Ukraine has significantly altered the economic outlook. Fitch Ratings expects economic growth to slow sharply in the first half of this year, and expects 2022 growth of 2.0% – down from 2.9% at the time of the last review in October 2021. We expect growth of 1.7% in 2023.

The main risk to our growth and inflation forecasts is a more severe stand-off between the west and Russia, resulting in persistently higher commodity prices, potentially including disruptions to energy imports from Russia, and weakened export markets.

Increased Inflation, Risks to Competitiveness: Consumer price inflation has picked up since 4Q21, rising to 5.8% in March. Higher energy prices have led us to raise our projections for inflation this year, to 3.8% (from 1.5%). We expect inflationary pressures to partly unwind in 2023. While some increase in wages is expected, there is a risk that high current inflation will lead to increased wage settlements that could negatively affect external competitiveness. The current account surplus remained unchanged in 2021 at 0.7% of GDP.

Slower Fiscal Deficit Decline: The general government deficit in 2021 was 2.6% of GDP, in line with the 'AA' median but substantially lower than our estimate at the time of the previous review (3.6% of GDP), and than the 2020 estimate of 5.5%. While we expect lower deficits this year and next, the worsened macroeconomic outlook and government measures announced in February to support the economy from the impact of high energy prices imply a slower decline in the public deficit than we forecast six months ago. For this year we expect a deficit of 2.2% of GDP, and a decline to 1.7% in 2023.

Broadly Stable Debt: Government debt as a share of GDP was 65.8% in 2021 (2020: 69.0%). Our public finance projections are consistent with the government debt ratio remaining broadly unchanged this year, before edging up to 66.7% in 2023, higher than the 'AA' or 'AAA' forecast medians (around 47%).

We assume that the debt ratio will remain elevated over the medium term, due to low potential growth and adverse demographics. Risks to debt sustainability are mitigated by current low debt servicing costs (interest payments/revenue ratio estimated at 0.9% in 2021; 'AA' median: 2.0%), an average maturity of debt at end-2021 of 7.3 years, limiting the impact of interest rate increases, and a strong public-sector balance sheet bolstered by large pension assets. At end-2021, the general government net asset position was 71.6% of GDP.

Household Debt Risks, Banks: Increased demand for housing and rising prices in 2021 led to a further rise in the household debt to disposable income ratio in 2021 to 145.1% (2020: 141.4%). The risks from high household debt are mitigated by a strong aggregate household balance sheet and a low interest burden.

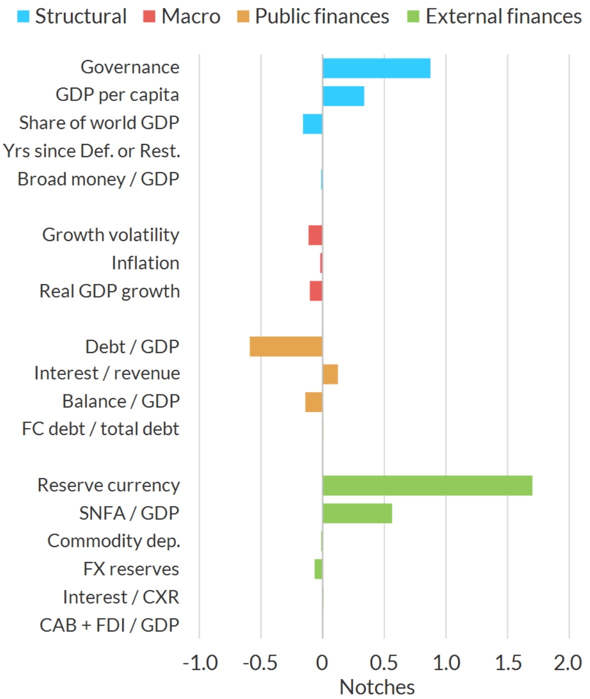
Finnish banks remained resilient during the pandemic, with non-performing loan ratios remaining very low (1.2% in 3Q21, compared with 1.6% a year earlier, on the basis of EBA data). Banks' capital ratios are high, with the common equity Tier 1 ratio at 17.5% in 3Q21. The Finnish financial sector has limited direct exposure to Russia, although indirect risks from the expected slowdown in economic growth remain.

Rating Summary

Long-Term Foreign-Currency Issuer Default Rating: AA+

Sovereign Rating Model: AA+

Contribution of variables, relative to AA Median



Note: See Peer Analysis table for summary data, including rating category medians; see the Full Rating Derivation table for detailed SRM data
Source: Fitch Ratings

Qualitative Overlay: 0

Adjustments relative to SRM data and output

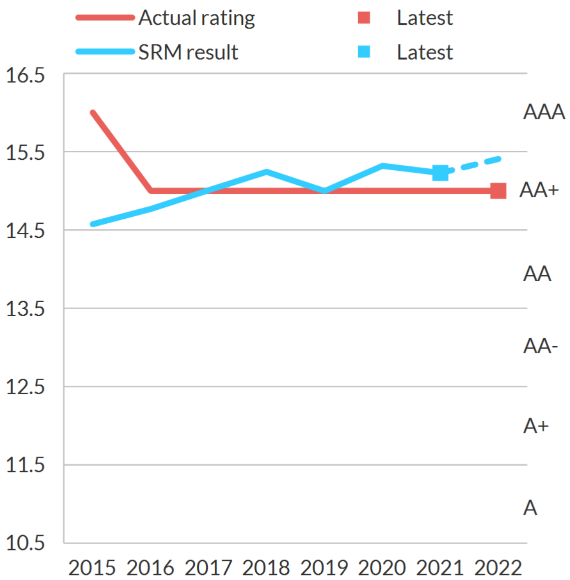
Structural features: 0 notch(es)/No adjustment.

Macroeconomic outlook, policies and prospects: 0 notch(es)/No adjustment.

Public finances: 0 notch(es)/No adjustment.

External finances: 0 notch(es)/No adjustment.

Sovereign Rating Model Trend



Rating Derivation History (last 10 reviews)

Review Date	LT FC IDR	SRM Result[ab]	QO S	M	PF	EF
Latest	AA+	AA+	0	0	0	0
22 Oct 21	AA+	AA+	0	0	0	0
23 Apr 21	AA+	AA+	0	0	0	0
30 Oct 20	AA+	AA+	0	0	0	0
26 Jun 20	AA+	AA+	0	0	0	0
24 Jan 20	AA+	AA+	0	0	0	0
26 Jul 19	AA+	AA+	0	0	0	0
1 Feb 19	AA+	AA+	0	0	0	0

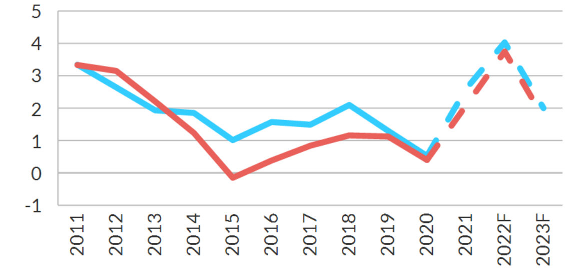
[a] The latest rating uses the SRM result for 2021 in the chart (this will roll forward to 2022 in July 2022)
[b] Historical SRM results in this table may differ from the chart, which is based on our latest data, due to data revisions
Abbreviations: LT FC IDR = Long-Term Foreign-Currency Issuer Default Rating; SRM = Sovereign Rating Model; QO = Qualitative Overlay
Source: Fitch Ratings

Peer Analysis

Finland AA Median

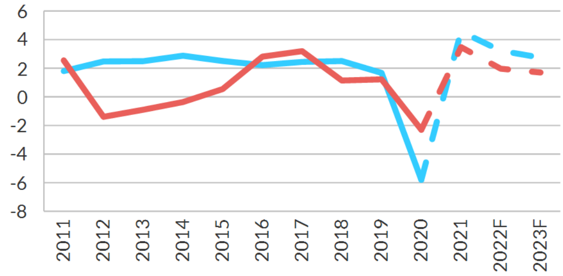
Consumer Price Inflation

(annual avg, %)



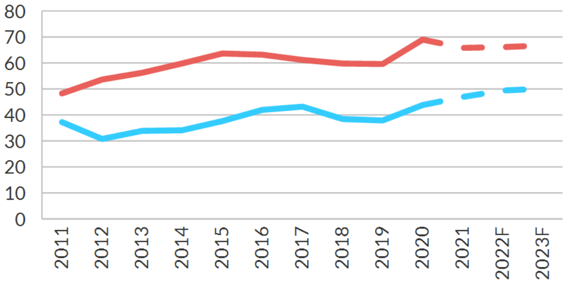
Real GDP Growth

(%)



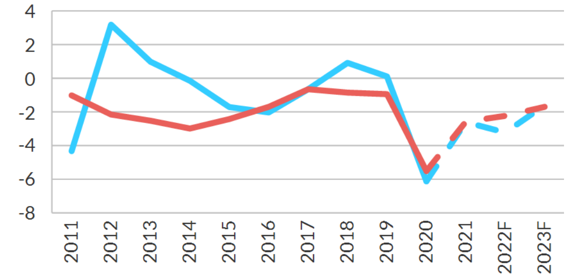
Gross General Government Debt

(% GDP)



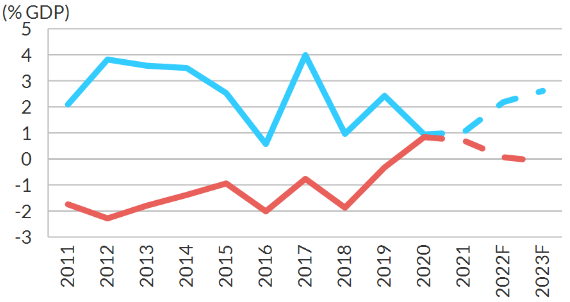
General Government Balance

(% GDP)



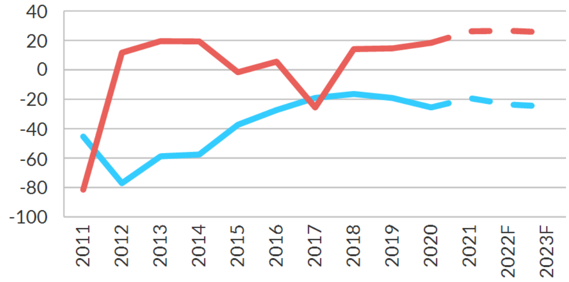
Current Account Balance

(% GDP)



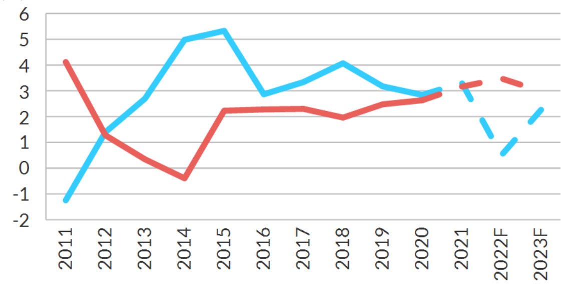
Net External Debt

(% GDP)



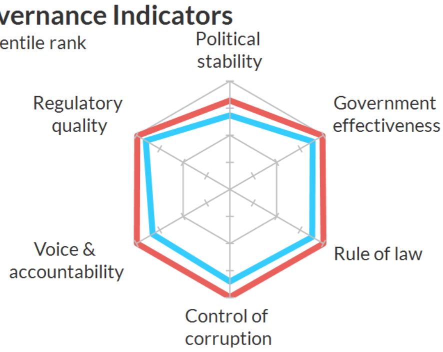
Real Private-Sector Credit Growth

(%)



Governance Indicators

Percentile rank



Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank

Peer Analysis

2021[a]	Finland	AA median	AAA median	A median
Structural features				
GDP per capita (USD) [SRM]	53,916	46,681	66,095	27,287
Share in world GDP (%) [SRM]	0.3	0.0	0.0	0.0
Composite governance indicator (percentile, latest) [SRM][b]	96.5	84.1	93.8	75.6
Human development index (percentile, latest)	94.1	88.7	95.4	81.9
Broad money (% GDP) [SRM]	91.8	97.6	91.7	88.2
Private credit (% GDP, 3-year average)	97.7	101.8	123.7	72.5
Dollarisation ratio (% bank deposits, latest)	3.5	12.3	15.4	10.3
Bank system capital ratio (% assets, latest)	21.8	15.9	14.8	15.3
Macroeconomic performance and policies				
Real GDP growth (%, 3-year average) [SRM]	1.0	2.3	2.2	3.8
Real GDP growth volatility (complex standard deviation) [SRM]	2.5	2.2	1.9	3.1
Consumer price inflation (%, 3-year average) [SRM]	2.1	2.2	1.8	2.3
Unemployment rate (%)	7.6	5.1	5.4	6.3
Public finances (general government)[c]				
Balance (% GDP, 3-year average) [SRM]	-3.4	-0.4	-0.1	-2.1
Primary balance (% GDP, 3-year average)	-2.9	1.1	1.3	-0.4
Interest payments (% revenue, 3-year average) [SRM]	1.1	3.8	3.6	4.7
Gross debt (% revenue, 3-year average)	129.0	134.8	115.0	137.0
Gross debt (% GDP, 3-year average) [SRM]	67.0	39.7	43.6	42.8
Net debt (% GDP, 3-year average)	64.3	26.9	36.6	38.7
FC debt (% gross debt, 3-year average) [SRM]	0.0	1.0	0.0	10.8
External finances[c]				
Current account balance (% GDP, 3-year average)	0.5	1.6	4.6	0.8
Current account balance + net FDI (% GDP, 3-year avg.) [SRM]	0.2	0.6	2.3	2.2
Commodity dependence (% CXR) [SRM]	18.9	14.9	13.8	11.5
Gross external debt (% GDP, 3-year average)	206.0	114.3	169.1	65.2
Net external debt (% GDP, 3-year average)	23.7	-9.4	6.5	-6.3
Gross sovereign external debt (% GXD, 3-year average)	24.0	16.2	12.2	17.5
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	56.3	4.9	-2.8	11.7
External interest service (% CXR, 3-year average) [SRM]	3.1	4.1	7.2	2.4
Foreign-exchange reserves (months of CXP) [SRM]	1.4	2.9	1.5	4.4
Liquidity ratio	38.5	57.5	49.5	107.6

[a] 3-year averages are centred on this year. Fitch does not forecast indicators labelled 'latest', meaning data may be lagging
[b] Composite of all six World Bank Worldwide Governance Indicators (see chart on the previous page)
[c] See Appendix 2: Data Notes and Conventions for details of data treatment for public finances and external finances
Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank, United Nations

Supplementary information

BSI / MPI = n.a. / 1. About the BSI and MPI: Fitch's bank systemic indicator (BSI) equates to a weighted average Viability Rating. The macro-prudential risk indicator (MPI) focuses on one potential source of financial stress, ranging from '3' – high potential vulnerability to financial stress over the medium term based on trends in credit expansion, equity and property prices and real exchange rates – to '1' – low likelihood. For more information, refer to Fitch Ratings' most recent Macro-Prudential Risk Monitor report.

Year cured from the most recent default or restructuring event, since 1980 = No event.

The de facto exchange rate regime, based on the latest IMF Annual Report on Exchange Arrangements and Exchange Restrictions report, is 'Free floating (EMU)'.

Rating Factors

Strengths

- Finland's governance scores outperform both the 'AA' and 'AAA' medians. Strong institutions underpin its structural strengths.
- GDP per capita is above the 'AA' median and is around four-fifths of the median of 'AAA' rated sovereigns.
- Finland is a core eurozone issuer, benefitting from low borrowing costs.
- The sovereign is a large net financial creditor. Eurostat data show a general government net asset position of 71.6% of GDP at end-2021.

Weaknesses

- Low productivity growth and a stable working-age population imply a low medium-term growth rate. Demographic pressures will raise the dependency ratio.
- General government debt (65.8% of GDP at end-2021) is higher than the 'AA' and 'AAA' medians, which are around 47% of GDP.
- The unemployment rate averaged 7.6% in 2021, higher than the 'AA' median estimate of 4.5%.
- Finland is a large net external debtor (estimate of 26.2% of GDP in 2021; 'AA' median -19.3% of GDP). Banks account for half of overall external liabilities.

Rating	Sovereign
AAA	Australia
	Denmark
	Germany
	Luxembourg
	Netherlands
	Norway
	Singapore
	Sweden
	Switzerland
	United States of America
AA+	**Finland**
	Austria
	Canada
AA	Abu Dhabi
	France
	Macao, China
	New Zealand
	Taiwan, China

Source: Fitch Ratings

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- **Public Finances:** A significant increase in the government debt/GDP ratio, for example, due to fiscal slippage and/or weak growth.
- **Structural/Macroeconomics:** A severe economic or financial shock that leads to broader macroeconomic stress, for example, originating in the household sector.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- **Public Finances:** An improved fiscal performance, which provides greater confidence of a reduction in government indebtedness over the medium term.
- **Macroeconomics:** An improvement in medium-term growth prospects, potentially supported by structural reforms and sustained gains in competitiveness.

Forecast Summary

	2018	2019	2020	2021	2022F	2023F
Macroeconomic indicators and policy						
Real GDP growth (%)	1.1	1.2	-2.3	3.5	2.0	1.7
Unemployment (%)	7.4	6.7	7.8	7.6	7.3	7.0
Consumer price inflation (annual average % change)	1.2	1.1	0.4	2.1	3.8	1.7
Policy interest rate (annual average, %)	0.0	0.0	0.0	0.0	0.0	0.2
General government balance (% GDP)	-0.9	-0.9	-5.5	-2.6	-2.2	-1.7
Gross general government debt (% GDP)	59.8	59.6	69.0	65.8	66.1	66.7
EUR per USD (annual average)	0.8	0.9	0.9	0.8	0.9	0.9
Real private credit growth (%)	2.0	2.5	2.6	3.2	3.5	3.0
External finance						
Merchandise trade balance (USDbn)	0.3	2.6	3.5	3.4	2.7	3.2
Current account balance (% GDP)	-1.9	-0.3	0.8	0.7	0.1	-0.1
Gross external debt (% GDP)	202.1	211.8	230.0	191.5	196.3	192.0
Net external debt (% GDP)	14.1	14.6	18.3	26.2	26.6	25.4
External debt service (principal + interest, USDbn)	31.8	60.0	58.9	63.2	63.3	63.8
Official international reserves including gold (USDbn)	10.3	11.4	13.5	16.7	17.9	18.8
Gross external financing requirement (% int. reserves)	301.7	536.1	453.1	422.7	354.4	337.8
Real GDP growth (%)						
US	2.9	2.3	-3.4	5.7	3.5	1.6
China	6.7	6.0	2.2	8.1	4.8	5.1
Eurozone	1.9	1.3	-6.4	5.3	3.0	2.3
World	3.2	2.6	-3.3	5.9	3.5	2.8
Oil (USD/barrel)	71.5	64.1	43.3	70.6	100.0	80.0

Source: Fitch Ratings

Sources and Uses

Public Finances

(General government) (EURbn)	2022F	2023F
Uses	**26.8**	**27.1**
Budget deficit	5.9	4.6
MLT amortisation	20.9	22.5
Domestic	8.8	9.4
External	12.1	13.1
Sources	**26.8**	**27.1**
Gross borrowing	25.9	27.6
Domestic	10.9	11.6
External	15.0	16.0
Privatisation	-	-
Other	-	-
Change in deposits (- = increase)	0.9	-0.5

Source: Fitch Ratings

External Finances

(USDbn)	2022F	2023F
Uses	**59.3**	**60.3**
Current account deficit	-0.2	0.3
MLT amortisation	59.5	60.0
Sovereign	16.2	45.5
Non-sovereign	43.3	60.0
Sources	**59.3**	**60.3**
Gross MLT borrowing	61.5	62.1
Sovereign	-1.0	-0.5
Non-sovereign	62.5	62.6
FDI	-0.7	-1.5
Other	-0.4	0.6
Change in FX reserves (- = increase)	-1.1	-0.9

Source: Fitch Ratings

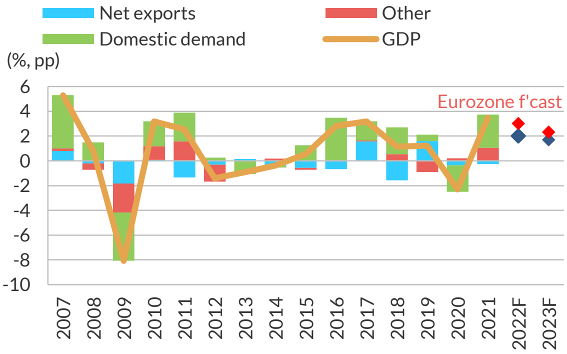
Credit Developments

Ukraine War Implies Downward Revisions to Growth Forecast

Economic activity continued to expand at a robust pace in the last three months of 2021, with real GDP increasing by 0.7% qoq, driven in particular by a strong expansion in investment and services exports (+26.1% qoq). This meant that real GDP expanded by 3.5% in 2021, in line with our estimate at the time of the last review in October 2021. Despite the sharp increase in exports in the last quarter of the year, domestic demand was the main driver of growth, with private and government consumption expanding by over 3%. Import growth outpaced exports, implying a negative contribution from net trade.

The level of real GDP surpassed the pre-pandemic level by 2Q21, and by end-2021 real GDP was 2.6% above that of end-2019. Manufacturing output rose quickly in December and January (output +2.2% in three months to January compared to previous three months), and survey data on end-2021 pointed to significant supply-chain constraints on companies and to tightness in the labour market.

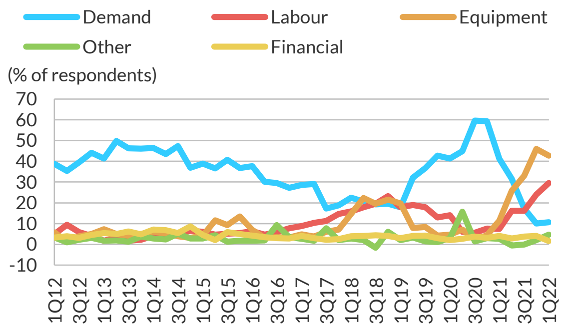
Contributions to GDP Growth and Forecasts



Source: Fitch Ratings, Statistics Finland

Survey Data on Production Constraints

Industrial sector - factors limiting production



Source: Fitch Ratings, European Commission

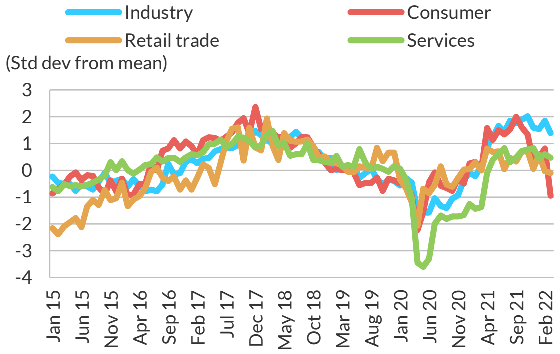
The war caused by the Russian invasion of Ukraine has significantly altered the economic outlook, through adverse effects on confidence, trade disruptions with Russia related to sanctions or firms re-orienting their trade links, the indirect effects of slower growth in Finland's other main trading partners, and further rises in energy prices affecting firms' costs and households' real incomes.

Confidence indicators for March have fallen back, with a particularly sharp decline in consumer confidence. We expect economic activity to slow sharply in the first half of this year, especially for private consumption and exports. Before the war, Russia accounted for around 5.5% of Finnish goods exports and around 10% of goods imports. More than half of all imports was accounted for by oil and petroleum products. We assume that the slowdown in export growth will outpace that for imports, implying a slight worsening in the net trade contribution to economic growth. Together with slower growth in consumption and investment in the first half of the year, this means that we have revised down our forecast for GDP growth this year to 2.0%, from 2.9% at the time of the last review.

We expect growth to pick up in the second half of the year and continue at a steady pace next year, on the assumption that the disruptions in energy prices and trade related to the war ease. This would result in real GDP increasing by 1.7%, on average, in 2023. In our March Global Economic Outlook, we lowered our forecasts for GDP growth in 2022 for the eurozone by 1.5%, to 3.0% (December 2021 forecast: 4.5%). Our forecast for growth in Germany this year was revised down even more – to 2.5% from 4.4%.

The labour market has adjusted in line with the strong expansion in economic activity last year. Employment growth averaged 2.4% on an annual basis in 2021, with the level of employment at end-2021 around 2% higher than in 4Q19. The labour force expanded at a similar pace. After reaching a peak of 8.8% in August 2020, the unemployment rate has reduced, averaging 7.6% over 2021 and falling to 7.0% and 6.5% in January and February this year, respectively, as job vacancies have risen sharply. We do not expect further rapid declines in unemployment over the next two years, due to the adverse effects of the slowdown related to the war, and also the signs of mismatch that are apparent in the labour market.

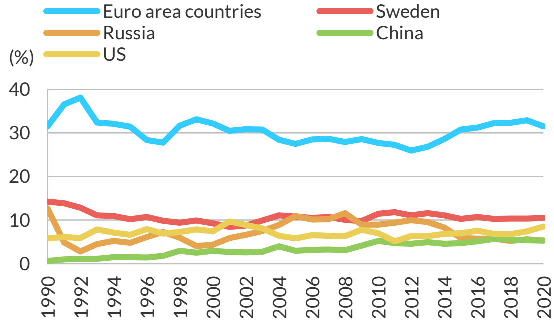
Confidence Indicators



Source: Fitch Ratings, European Commission

Long-Run Export Shares

Share of total goods exports



Source: Fitch Ratings, Finnish Customs

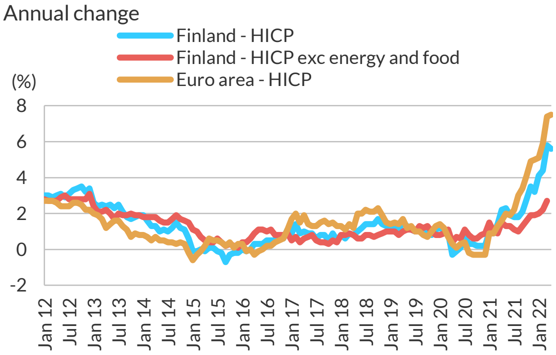
Higher Inflation; Risks

Consumer price inflation has picked up since 4Q21, with inflation on the harmonised HICP measure averaging 1.6% in 1H21 before rising to 5.8% in March (November: 3.5%; December: 3.2%; February: 4.4%). On the basis of higher energy prices we have substantially increased our projections for consumer price inflation this year, to an average annual rate of 3.8% (from 1.5%). The increase in inflation so far in Finland has been less substantial than in the eurozone area as a whole, which saw HICP inflation reach 5.9% in February. We expect inflationary pressures to partly ease in 2023, with average inflation in Finland expected at 1.7%, and we expect inflation to reach 1.1% by the end of 2023 in the eurozone as a whole.

A key risk from high inflation is that it will be reflected in pressures to increase wage settlements, and then locked in through wage negotiations. Wages and salaries (excluding bonuses) increased by 2.3%. the Ministry of Finance expects negotiated wage rate to increase by 2.3% this year, but negotiations on collective agreements, including in the health sector, may give rise to sharp increases in wages over the coming years. If these potential increases are unmatched by productivity improvements, it would adversely affect Finland's external competitiveness.

Consumer Price Inflation

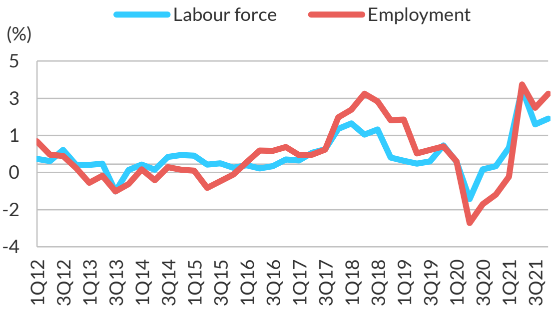
Annual change



Source: Fitch Ratings, Eurostat

Employment and Labour Force

Change on year earlier



Source: Fitch Ratings, Statistics Finland

The main risk to our macroeconomic forecasts is a prolonged conflict in Ukraine resulting in persistently high prices for oil, gas and other commodities, and weakened export markets. The Bank of Finland has indicated that, in an adverse scenario of a prolonged war with a slow adjustment, the Finnish economy would grow by just 0.5% this year and next, with consumer price inflation averaging 5% this year.

Potential disruptions in energy supply from Russia would worsen the trade disruptions already brought about by lower demand, sanctions or business decisions to limit exchanges with Russia. In 2019, fossil fuels accounted for around 40% of energy consumption. Fossil fuels are mostly imported and around two-thirds of these imports were sourced from Russia.

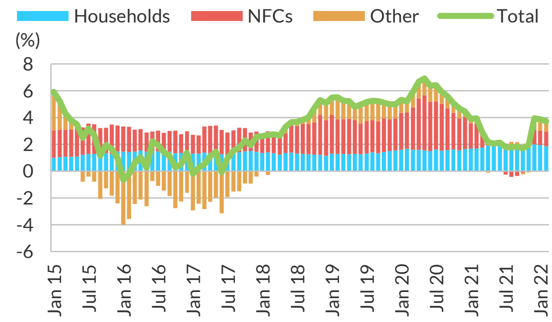
Credit Growth Picks Up; House Prices Recovering

Bank lending to the private sector increased at a faster pace towards the end of last year, in line with the robust dynamics in overall demand in the economy. Annual growth in lending to non-financial firms picked up from 1.8% in the middle of 2021 to around 4.0% at the turn of this year. Annual growth in lending to households has remained steady at around 3.6%–3.8% over the past year. Survey data from the ECB do not point to a strengthening in demand for credit in the first quarter of this year. House prices recovered over the course of 2021 after a period of pandemic-related weakness, with annual house price inflation averaging 3.5% in 2021, and recording 3.1% in January and 3.2% in February this year.

Increased demand for housing, also in the context of a temporary easing in the loan-to collateral caps during the pandemic, and low interest rates, have translated to a further rise in household debt, with the household debt to income ratio reaching 145.1% in 2021, up from 141.4% in 2020. The risks from high household debt are mitigated by a strong aggregate household balance sheet and a low interest burden. The loan cap on residential mortgage loans was reduced to the pre-pandemic level of 85% (except for first-time buyers) from October 2021.

MFI Loans to Other Sectors

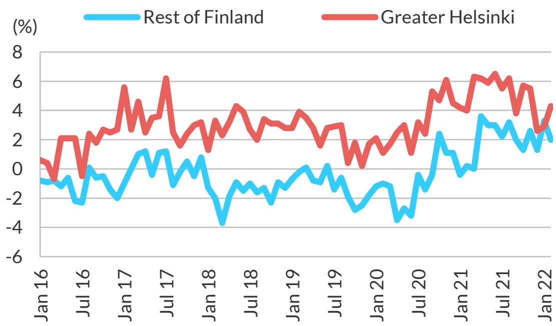
Contributions to annual change in total loans



Source: Fitch Ratings, Bank of Finland

House Price Inflation

Annual change in house prices, all building types



Source: Fitch Ratings, Statistics Finland

Lower-than-Forecast Deficit; Stable Debt Ratio Forecast

The general government deficit in 2021 was 2.6% of GDP, substantially lower than our estimate at the time of the previous review (3.6% of GDP), and falling from the 2020 deficit of 5.5% of GDP. A lower expenditure/GDP ratio accounted for 0.8pp of the better-than-expected outturn for last year. We expect a more gradual decline in the government deficit over the next two years, on account of our downward revisions to economic growth, and also due to the support measures announced by the government in February to support the economy from high energy prices. The package envisages mainly a lower electricity tax rate and higher tax deductions for travel expenses, and the government estimates that would cost around EUR610 million (around 0.2% of 2021 GDP). We forecast a deficit of 2.2% of GDP this year, and a further fall in the deficit to 1.7% in 2023.

In February the government also introduced a supplementary budget increasing planned overall spending by around EUR550 million (around 0.2% of forecast GDP) with the extra spending accounted for mainly by pandemic-related support for business and expenditure related to the introduction of the new 'wellbeing services counties' as a result of the reform in social care.

Government debt as a share of GDP was 65.8% in 2021 (2020: 69.0%), and lower than our previous projection of 70.7%. Our public finance projections are consistent with the government debt ratio remaining broadly unchanged this year, before increasing to 66.7% in 2023.

The government published its fiscal plans for 2023 to 2026 in mid-April. The government's projections for the general government deficit for this year and next are broadly in line with ours, on the basis of more negative macroeconomic assumptions (with real GDP growth declining to 1.5% this year in the government's assumptions, 0.5% lower than our forecast). In the government's plans, the general government deficit will decrease further, before increasing again in 2025 and 2026 as the impact of higher government spending, especially on defence and security in light of the worsened geopolitical backdrop, affects fiscal aggregates. In particular, the government spending limit for 2023 (which covers around 85% of central government expenditure, and does not include spending linked to the economic cycle) will be raised by EUR2 billion (around 0.7% of forecast GDP) to allow for higher spending on defence, border security and cyber-security, immigration support, and energy security.

There is, however, a degree of uncertainty about future fiscal and economic policy settings as the current parliamentary term will come to an end in spring 2023, and elections to form a new parliament and government will be held in April next year.

Public Debt Dynamics

According to Fitch's baseline projections, GGGD will be broadly unchanged this year and then increase at a moderate pace over the next three years to reach 68.4% by 2026. A failure to reduce the primary budget deficit from its 2021 level would imply the debt ratio rising to around 73% over the five-year horizon.

Debt Dynamics - Fitch's Baseline Assumptions

	2020	2021	2022	2023	2024	2025	2026
Gross general government debt (% of GDP)	69.0	65.8	66.1	66.7	67.2	67.8	68.4
Primary balance (% of GDP)	-4.8	-2.1	-1.7	-1.2	-1.0	-1.0	-1.0
Real GDP growth (%)	-2.3	3.5	2.0	1.7	1.1	1.1	1.1
Average nominal effective interest rate (%)	1.1	0.7	0.6	0.6	0.7	0.8	1.0
EUR/USD (annual avg.)	0.9	0.8	0.9	0.9	0.9	0.9	0.9
GDP deflator (%)	1.6	2.7	2.0	1.6	1.7	1.7	1.7
Stock-flow adjustments (% of GDP)	0.0	0.0	-0.7	-1.1	-0.9	-0.9	-0.8

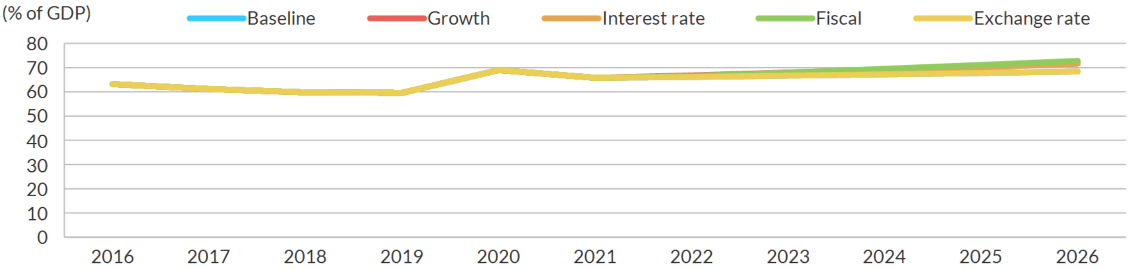
Source: Fitch Ratings

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 1.0% lower (half standard deviation lower)
Interest rate	Marginal interest rate 250bp higher
Fiscal	Stable primary balance deficit at 2.1% of GDP after 2021

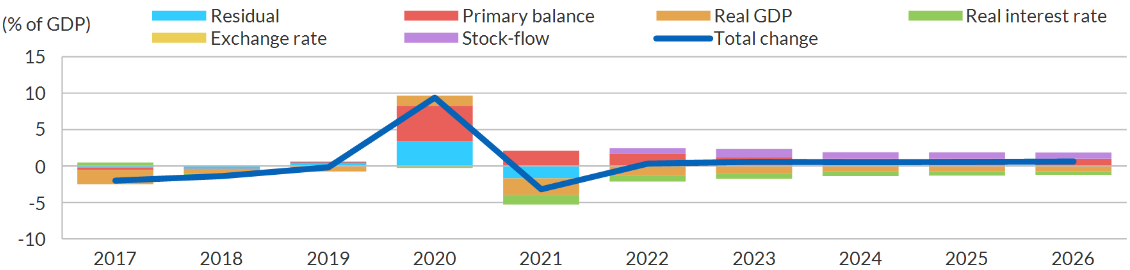
Source: Fitch Ratings

Sensitivity Analysis
Gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

Baseline Scenario: Debt Creating Flows
Change in gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

About the Public Debt Dynamics

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Data Tables

General Government Summary

(% GDP)	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
Revenue	54.1	53.9	53.0	52.5	52.3	51.6	52.4	51.7	51.4
Expenditure	56.5	55.6	53.6	53.3	53.3	57.1	54.9	54.0	53.1
o/w interest payments	1.2	1.1	1.0	0.9	0.8	0.7	0.5	0.5	0.5
Interest payments (% revenue)	2.1	2.0	1.9	1.7	1.6	1.3	0.9	1.0	0.9
Primary balance	-1.3	-0.6	0.3	0.0	-0.1	-4.8	-2.1	-1.7	-1.2
Overall balance	-2.4	-1.7	-0.7	-0.9	-0.9	-5.5	-2.6	-2.2	-1.7
Gross government debt	63.6	63.2	61.2	59.8	59.6	69.0	65.8	66.1	66.7
% of government revenue	117.7	117.1	115.5	113.9	113.9	133.7	125.7	127.7	129.7
Domestic debt	9.2	12.1	11.7	17.0	17.4	20.6	19.6	19.7	19.9
External debt	54.5	51.1	49.4	42.8	42.1	48.4	46.2	46.4	46.8
Local currency	63.6	63.2	61.2	59.8	59.6	69.0	65.8	66.1	66.7
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central government deposits	1.3	1.3	1.5	1.4	1.1	3.7	2.3	1.9	2.0
Net government debt	62.4	61.9	59.6	58.4	58.5	65.3	63.5	64.2	64.7
Financing		1.7	0.7	0.9	0.9	5.5	2.6	2.2	1.7
Domestic borrowing		3.2	0.1	5.6	0.9	3.0	0.3	0.8	0.8
External borrowing		-1.9	0.4	-5.2	0.5	5.9	0.6	2.0	2.0
Other financing		0.4	0.2	0.4	-0.5	-3.4	1.7	-0.6	-1.1
Change in deposits (- = increase)		-0.1	-0.3	0.1	0.3	-2.6	1.1	0.3	-0.2
Privatisation		-	-	-	-	-	-	-	-
Other		0.4	0.5	0.2	-0.7	-0.8	0.6	-1.0	-0.9

Source: Fitch Ratings, Ministry of Finance

Balance of Payments

(USDbn)	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
Current account	-2.2	-4.8	-2.0	-5.2	-0.9	2.3	2.1	0.2	-0.3
% GDP	-0.9	-2.0	-0.8	-1.9	-0.3	0.8	0.7	0.1	-0.1
Goods	2.1	0.0	1.7	0.3	2.6	3.5	3.4	2.7	3.2
Services	-3.4	-3.1	-1.6	-3.8	-2.2	-2.7	-2.8	-2.6	-2.5
Primary income	2.0	1.0	0.2	1.0	1.3	4.7	5.1	2.2	1.1
Secondary income	-2.9	-2.8	-2.3	-2.7	-2.6	-3.3	-3.6	-2.1	-2.1
Capital account	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Financial account	-0.5	-8.1	-7.6	-19.0	-9.7	-0.9	-0.6	0.4	-0.1
Direct investment	-18.2	15.5	-3.5	13.7	-8.6	7.3	-5.5	0.7	1.5
Portfolio investment	0.6	4.3	-3.2	-24.6	-28.4	-0.5	23.9	-2.9	-2.9
Derivatives	-6.9	-1.2	-5.0	-0.7	0.5	-1.7	2.3	-0.9	-0.1
Other investments	24.3	-27.3	4.4	-7.3	26.1	-7.0	-24.7	2.4	0.5
Net errors and omissions	1.6	-3.3	-5.9	-14.0	-9.0	-3.4	-2.9	0.0	0.0
Change in reserves (+ = increase)	-0.3	0.6	-0.4	-0.1	0.6	1.0	3.4	1.1	0.9
International reserves, incl. gold	10.0	10.5	10.5	10.3	11.4	13.5	16.7	17.9	18.8
Liquidity ratio (%)	36.9	39.1	34.1	32.3	46.9	40.8	38.5	40.3	39.3
Memo									
Current external receipts (CXR)	101.7	103.2	116.2	128.3	132.5	121.2	141.7	147.9	152.6
Current external payments (CXP)	103.9	108.0	118.2	133.5	133.4	118.9	139.6	147.7	152.8
CXR growth (%)	-18.7	1.4	12.7	10.4	3.3	-8.6	16.9	4.4	3.2
CXP growth (%)	-19.4	3.9	9.4	13.0	-0.1	-10.9	17.4	5.8	3.5
Gross external financing requirement	52.1	48.8	43.5	31.7	55.3	51.8	57.0	59.3	60.3
% International reserves	487.9	486.8	415.2	301.7	536.1	453.1	422.7	354.4	337.8
Net external borrowing	-6.4	-15.1	23.5	31.8	29.0	-3.9	-14.4	6.3	4.5

Source: Fitch Ratings, IMF

External Debt and Assets

(USDbn)	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
Gross external debt	491.9	460.1	322.6	557.1	568.7	623.9	572.9	576.2	580.0
% GDP	209.8	191.2	126.5	202.1	211.8	230.0	191.5	196.3	192.0
% CXR	483.7	446.0	277.6	434.1	429.1	514.9	404.4	389.6	380.2
Short-term debt (% GXD)	55.3	54.8	58.9	51.2	52.5	52.6	48.0	47.9	47.7
By debtor									
Sovereign	137.8	129.9	140.2	129.9	128.0	161.2	135.0	130.9	129.7
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	137.8	129.9	140.2	129.9	128.0	161.1	134.9	130.9	129.7
Banks	333.2	297.2	139.2	373.3	383.6	395.0	339.1	338.6	337.4
Other sectors	20.9	33.0	43.2	53.8	57.0	67.8	98.9	106.6	112.8
Gross external assets (non-equity)	495.7	446.8	387.8	518.3	529.5	574.2	494.6	498.2	503.1
Sovereign	97.8	67.7	89.1	78.9	146.4	131.0	98.6	104.2	110.0
International reserves, incl. gold	10.0	10.5	10.5	10.3	11.4	13.5	16.7	17.9	18.8
Other sovereign assets	87.7	57.2	78.6	68.6	135.0	117.6	81.8	86.4	91.2
Banks	214.1	167.1	94.0	245.4	234.7	252.0	207.3	201.2	196.5
Other sectors	80.3	85.5	98.9	94.0	98.5	88.1	85.0	89.2	93.0
Net external debt	-3.9	13.3	-65.3	38.8	39.2	49.8	78.3	77.9	76.9
% GDP	-1.6	5.5	-25.6	14.1	14.6	18.3	26.2	26.6	25.4
Sovereign	39.5	61.8	51.2	51.0	-18.4	30.1	36.4	26.9	19.9
Banks	119.1	130.1	45.2	127.9	148.9	143.0	131.8	137.4	140.9
Other sectors	-59.4	-52.5	-55.7	-40.1	-41.5	-20.4	13.9	17.3	19.9
International investment position									
Assets	495.7	446.8	387.8	518.3	529.5	574.2	494.6	498.2	503.1
Liabilities	491.9	460.1	322.6	557.1	568.7	623.9	572.9	576.2	580.0
Net	11.0	12.7	3.3	-15.0	10.9	-12.9	-13.5	-27.2	-40.1
Net sovereign	57.9	39.6	75.6	72.2	162.8	134.6	147.5	205.2	229.1
% GDP	24.7	16.4	29.7	26.2	60.6	49.6	49.3	69.9	75.8
External debt service (principal + interest)	56.4	49.3	46.8	31.8	60.0	58.9	63.2	63.3	63.8
Interest (% CXR)	6.5	5.3	4.5	4.1	4.3	4.0	2.9	2.5	2.5

Source: Fitch Ratings, central bank, IMF, World Bank

Full Rating Derivation

Long-Term Foreign-Currency Issuer Default Rating (SRM + QO) AA+

Sovereign Rating Model					Applied Rating[d]			AA+
					Model result and predicted rating			15.23 = AA+
Input indicator	**Weight (%)**	**2020**	**2021**	**2022**	**Adjustment to final data**	**Final data**	**Coefficient**	**Output (notches)**
Structural features								**10.95**
Governance indicators (percentile)	20.0	n.a.	96.5	n.a.	-	96.5	0.073	7.07
GDP per capita (USD)	13.3	n.a.	53,892	n.a.	Percentile	88.9	0.042	3.75
Nominal GDP (% world GDP)	12.8	n.a.	0.32	n.a.	Natural log	-1.1	0.583	-0.66
Most recent default or restructuring	5.4	n.a.	None	n.a.	Inverse 0-1[a]	0.0	-2.108	0
Broad money (% GDP)	1.3	n.a.	91.8	n.a.	Natural log	4.5	0.175	0.79
Macroeconomic performance, policies and prospects								**-0.86**
Real GDP growth volatility	5.5	n.a.	2.5	n.a.	Natural log	0.9	-0.886	-0.81
Consumer price inflation	3.0	0.4	2.1	3.8	3-yr avg.[b]	2.6	-0.053	-0.14
Real GDP growth	2.6	-2.3	3.5	2.0	3-yr avg.	1.0	0.084	0.09
Public finances								**-1.67**
Gross general govt debt (% GDP)	8.3	69.0	65.8	65.9	3-yr avg.	66.9	-0.022	-1.45
General govt interest (% revenue)	4.9	1.3	1.1	1.0	3-yr avg.	1.1	-0.047	-0.05
General govt fiscal balance (% GDP)	2.5	-5.5	-2.6	-2.2	3-yr avg.	-3.4	0.047	-0.16
FC debt (% of total general govt debt)	2.5	0.0	0.0	0.0	3-yr avg.	0.0	-0.007	0
External finances								**2.22**
Reserve currency (RC) flexibility	7.6	n.a.	3.1	n.a.	RC score 0 - 4.5[c]	3.1	0.542	1.70
SNFA (% of GDP)	7.1	39.7	57.6	61.7	3-yr avg.	53.0	0.012	0.62
Commodity dependence	1.1	n.a.	18.9	n.a.	Latest	18.9	-0.004	-0.08
FX reserves (months of CXP)	1.5	n.a.	1.3	n.a.	n.a. if RC score> 0	0.0	0.032	0
External interest service (% CXR)	0.4	4.0	3.7	3.5	3-yr avg.	3.7	-0.006	-0.02
CAB + net FDI (% GDP)	0.1	-1.8	-0.3	1.2	3-yr avg.	-0.3	0.002	-0.00
Intercept Term (constant across all sovereigns)								**4.58**

[a] Inverse 0-1 scale, declining weight; [b] of truncated value (2%-50%); [c] Declining weight; [d] Sovereign rating committee can override SRM Predicted Rating if a marginal change in the Model Result leads to a notch change which is judged to be temporary or caused by a re-estimation of the SRM, a process that Fitch undertakes on at least an annual basis. Please refer to the Rating Action Commentary for further information when the Applied Rating differs from the Predicted Rating
Note: This table contains data as at the date of the most recent rating action. There may be minor differences to data presented elsewhere in this report, which may have been updated where appropriate, for example in the event of subsequent data releases
Source: Fitch Ratings

Qualitative Overlay (notch adjustment, range +/-3)	**0**
Structural features	0
Macroeconomic outlook, policies and prospects	0
Public finances	0
External finances	0

About the SRM and QO

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a Long-Term Foreign-Currency (LT FC) Issuer Default Rating (IDR). Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Supplementary Ratings

Local-Currency Rating

Finland's credit profile does not support a notching up of the Long-Term Local-Currency IDR above the Foreign-Currency IDR. In Fitch's view, neither of the two key factors cited in the criteria that support upward notching of the Long-Term Local-Currency IDR are present: strong public finance fundamentals relative to external finance fundamentals, and previous preferential treatment of local-currency creditors relative to foreign-currency creditors. Finland is also a member of the eurozone, which constrains the Long-Term Local Currency IDR at the same level as the Long-Term Foreign-Currency IDR.

Country Ceiling

Finland's Country Ceiling reflects Fitch's view that the risk of capital or exchange controls being imposed in the eurozone is low, but not negligible. This is consistent with Fitch's maximum Country Ceiling uplift of six notches above eurozone member states' Long-Term Foreign-Currency IDRs.

Full Rating History

	Foreign-Currency Rating			Local-Currency Rating			
Date	Long-Term	Short-Term	Outlook/ Watch	Long-Term	Short-Term	Outlook/ Watch	Country Ceiling
24 Jan 2020	AA+	F1+	Stable	AA+	F1+	Stable	AAA
03 Aug 2018	AA+	F1+	Positive	AA+	F1+	Positive	AAA
22 Jul 2016	AA+	F1+	Stable	AA+	F1+	Stable	AAA
11 Mar 2016	AA+	F1+	Stable	AA+	-	Stable	AAA
20 Mar 2015	AAA	F1+	Negative	AAA	-	Negative	AAA
22 Dec 2005	AAA	F1+	Stable	AAA	-	Stable	AAA
17 Jun 2004	AAA	F1+	Stable	AAA	-	-	AAA
21 Sep 2000	AAA	F1+	Stable	AAA	-	-	-
05 Aug 1998	AAA	F1+	-	AAA	-	-	-
14 Jul 1998	AA+	F1+	-	AA+	-	-	-
29 Apr 1997	AA+	F1+	-	AAA	-	-	-
12 Mar 1996	AA	F1+	-	AAA	-	-	-
26 Oct 1995	AA-	F1+	-	AAA	-	-	-
10 Aug 1994	AA-	-	-	-	-	-	-

Source: Fitch Ratings

Appendix 1: Environmental, Social and Governance (ESG)

Credit Relevance Scores

General Issues	Key Sovereign Issues	SRM	QO	Score[a]
Environmental (E)				
GHG Emissions and Air Quality	Emissions and air pollution as a constraint on GDP growth	2	2	2
Energy Management	Energy resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Water Resources and Management	Water resource availability and management as a constraint on GDP growth	2	2	2
Biodiversity and Natural Resource Management	Natural resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Natural Disasters and Climate Change	Impact of adverse climate trends, and likelihood of and resilience to shocks	3	2	3
Social (S)				
Human Rights and Political Freedoms	Social stability, voice and accountability, regime legitimacy	4	2	4 +
Human Development, Health and Education	Impact of human development, health and education on GDP per capita and GDP growth	3	2	3
Employment and Income Equality	Impact of unemployment and income equality on GDP per capita, GDP growth and political and social stability	3	2	3
Public Safety and Security	Impact of public safety and security on business environment and/or economic performance	3	2	3
Demographic Trends	Population decline or aging, rapidly rising youth population; pensions sustainability	3	3	3
Governance (G)				
Political Stability and Rights	Political divisions and vested interests; geo-political risks including conflict, security threats and violence; policy capacity: unpredictable policy shifts or stasis	5	2	5 +
Rule of Law, Institutional & Regulatory Quality, Control of Corruption	Government effectiveness, control of corruption, rule of law, regulatory quality	5	2	5 +
International Relations and Trade	Trade agreements, membership of international organizations, bilateral relations; sanctions or other costly international actions	3	2	3
Creditor Rights	Willingness to service and repay debt	4	2	4 +
Data Quality and Transparency	Availability, limitations and reliability of economic and financial data, including transparency of public debt and contingent liabilities	3	2	3

Source: Fitch Ratings

About ESG Credit Relevance Scores

The scores signify the credit relevance of the respective E, S and G issues to the sovereign entity's credit rating, according to the following scale:

- 5 – Highly relevant to the rating, a key rating driver with a high weight.
- 4 – Relevant to the rating, a rating driver.
- 3 – Relevant, but only has an impact on the entity rating in combination with other factors.
- 2 – Irrelevant to the entity rating but relevant to the sector (sovereigns).
- 1 – Irrelevant to the entity rating and irrelevant to the sector (sovereigns).

The score for each 'General Issue' is comprised of a component SRM and QO score, and is simply the higher of the two. SRM scores are fixed across all sovereigns as the weights in the SRM are the same for all sovereigns; QO component scores vary across all sovereigns.

All scores of '4' or '5' result in a negative impact on the rating, unless indicated otherwise. Where a positive impact is occurring, the score of '4' or '5' is appended with a '+' symbol. Scores of '3', '2' and '1' do not have a direction of impact assigned.

Please refer to ESG Relevance Scores for Sovereigns for further information on the framework, including 'Sovereign Rating Criteria References' (which identify specific potentially related SRM variables and QO factors for each 'General Issue').

Credit-Relevant ESG Derivation

Finland has an ESG Relevance Score of '5[+]' for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Finland has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Finland has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Finland has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Finland has an ESG Relevance Score of '4[+]' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver. As Finland has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Finland has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Finland, as for all sovereigns. As Finland has track record of 20+ years without a restructuring of public debt and captured in our SRM variable, this has a positive impact on the credit profile.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Appendix 2: Data Notes and Conventions

Acronyms

Acronyms used in the above table and elsewhere in report are: Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Current Account Balance (CAB), Foreign Direct Investment (FDI), World Bank Worldwide Governance Indicators (WBGI), Sovereign Rating Model (SRM), Qualitative Overlay (QO). For a full list of indicator definitions, please refer to the most recent Sovereign Data Comparator.

Medians

Medians underlying the SRM relative to rating category chart on the Rating Summary page and as reported in the Peer Analysis table on page 4 are long-term historical medians. These are based on actual data since 2000 for all sovereign-year observations when the sovereign was in the respective rating category at year-end. Current year ratings and data are excluded.

Chart medians on page 3 are based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

Notes for Finland

All data are on a calendar-year basis, which aligns with the domestic fiscal year for this sovereign.

Public finances data referenced in this report relate to the consolidated general government, as per our principal approach, unless specifically noted otherwise where cited.

The external balance sheet data referenced in this report are derived from the international investment position dataset, as per our principal approach.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.